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REPLY TO:

Auditor General  
Comptroller, USAF  
Eastern District  
Liaison Office  
P.O. Box 8155, S.W. Station  
Washington, D. C.

13 November 1959

SUBJECT: Advisory Report on Price Redetermination Audit  
Lockheed Aircraft Corporation  
Burbank, California  
Contract No. SP-1915 /

TO : Contracting Officer

REPS : (a) DPD-7620-59  
(b) DPD-6692-59  
(c) DPD-6699-59

1. Purpose of Examination. An examination has been made of the historical and estimated costs included in the contractor's proposal for price redetermination of the subject contract. The examination was made to determine the accuracy of the historical costs and to furnish pertinent information related to costs estimated by the contractor.

2. Scope of Examination.

(a) Recorded Costs. Recorded costs of material and direct charges were examined by reference to purchase orders, paid invoices and receiving documents. Audit working papers on estimates to complete contracts SP-1913 and SP-1914, together with adjusting entries subsequent to November 1957, were scanned to ensure that no duplication of costs was made. Records were examined to verify the contractor's statement in Reference (c) regarding a commitment for which the contractor has requested approval for transfer to another contract. Direct labor costs were traced to labor distribution records, and, where applicable, compared with travel expense distribution. Information relative to overhead and C & A was obtained from the cognizant AF Resident Office.

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(b) Estimated Costs to Complete. The contractor's commitments were traced to open purchase orders and disbursement records.

3. Results of the Examination.

(a) Recorded and Estimated Costs. The contractor proposes costs of \$1,201,720.78, consisting of \$1,191,070.78 incurred costs through 30 August 1959, and \$10,650.00 estimated. The contents of the proposal and the auditor's recommendations are summarized as follows:

	Proposed Costs	Auditor's Recommendations	
		Costs Accepted	Costs Questioned
Labor	\$ 629,143.32	\$ 629,143.32	
Overhead	363,057.78	358,365.05	\$4,692.73
Mat'l and D/C	114,155.89	114,155.89(1)	
C & A	93,363.79	90,266.13	5,097.66
Total Costs	<u>\$1,201,720.78</u>	<u>\$1,191,930.39</u>	<u>\$9,790.39(2)</u>

NOTE 1 - Subject to approval by the Contracting Officer of purchase order to Crucible Steel Co. which states, "not to exceed \$10,000." Shipments have been received from this company; however no billings have been rendered since inception, October 1958.

Note 2 - Explained in Schedule A.

(b) General. Tests of direct labor and travel expense disclosed instances where an employee's labor had been charged to a specific contract and his travel expenses during the same period to another contract. No action was taken here inasmuch as (a) the dollar amount did not warrant increasing the proposed contract amount and adjusting two other contracts, one of which, SP-1916, had already been negotiated; and (b) all are FPR types; and (c) all are project contracts. The auditor has recommended that the contractor tighten its controls in this area.

(c) Property. Audit of property requested in Reference (b) will be performed in the very near future. The contractor's representative informed the auditor that no residual inventory schedules will be submitted for Contract No. SP-1915, inasmuch as redundant material, if any, will be carried forward to Contract No. DK-3559.

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4. Discussion with the Contractor. Costs questioned were discussed with [redacted] Finance Representative, whose comments are outlined in the footnotes to Schedule A. Deviations from the approved accounting policy for the treatment of labor and travel expense were discussed with Project Administrator, who informed the auditor that the necessary action would be initiated to prevent recurrence of this type of error.

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Audit Liaison Officer  
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Auditor General

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SCHEDULE ACONTRACTOR'S PROPOSED OVERHEAD AND C & A COSTS  
AND THE AUDITOR'S RECOMMENDATIONSCONTRACT NO. SP-1915

	Per Contractor's Proposal			Per Auditor			Difference Questioned
	Hours	Rate	Amount	Hours	Rate	Amount	
1958 Factory Engineering	163.5	\$3.7784	\$ 617.76	163.5	\$3.5577	\$ 581.68	\$ 36.08
	78327.8	2.7355	214,265.71	78327.8	2.7337	214,124.71	141.00
							<u>\$ 177.08 (Note 1)</u>
Total							
1959 Factory Engineering	281.0	\$3.870	\$ 1,087.48	281.0	\$3.647	\$ 1,024.81	\$ 62.67
	46873.4	2.960	138,745.27	46873.4	2.865	134,292.29	4,452.98
							<u>\$4,515.65 (Note 2)</u>
Total							<u>\$4,692.73</u>
	Total Factory and Engineering O/H Questioned						
1958 C & A	78491.3	\$ .7169	\$ 56,270.41	78491.3	\$ .6880	\$ 54,002.01	\$2,268.40 (Note 1)
1959 C & A	47154.4	.790	37,251.97	47154.4	.730	34,422.71	\$2,829.26 (Note 2)
	Total C & A Expenses Questioned						
							<u>\$5,097.66</u>

Note 1 - The contractor erroneously used estimated 1958 rates. The auditor used the final negotiated 1958 rates. The contractor concurred in the questioned 1958 overhead and C&A costs.

Note 2 - The auditor used rates currently in use by the AF Resident office. The contractor's representative reserved opinion in this year.